

Selby District Council

REPORT

Reference: E/17/45

Item 6 - Public



To: Executive
Date: 1 February 2018
Status: Key Decision
Report Published: 24 January 2018
Author: John Raine, Head of Technical Finance
Executive Member: Cllr Cliff Lunn, Executive Lead Member for Finance & Resources
Lead Officer: Karen Iveson, Chief Finance Officer

Title: Treasury Management – Monitoring Report for Q3

Summary:

This report reviews the Council's Treasury Management Activity for the 9 month period 1 April 2017 to 31 December 2017 and presents performance against the Prudential Indicators. During this period the Council complied with its legislative and regulatory requirements.

Investments – The Bank of England Bank Base Rate increased on 2nd November from 0.25% to 0.5% in line with market speculation earlier in the year. No further bank rate increases are expected until December 2018 at the earliest. Overall average rate achieved up to 31 December is 0.47%. Investment returns are budgeted for £125k and as at Q3, the forecast outturn is expected to be around £253k (£190k allocated to the General Fund; £63k to the Housing Revenue Account).

Borrowing – the council has long term borrowing of £59.3m at 31 December 2017. Interest payments of £2.5m are forecast for 2017/18 (£0.1m allocated to the General Fund; £2.4m to the Housing Revenue Account).

Prudential Indicators – the Council's affordable limits for borrowing were not breached during this period.

Recommendations:

- i. **Councillors endorse the actions of officers on the Councils treasury activities for Q3 and approve the report.**

Reasons for recommendation

To comply with the CIPFA Code of Practice for Treasury Management, the Executive is required to receive and review regular Treasury Management Monitoring Reports.

1. Introduction and background

- 1.1 Local Government Treasury Management is governed by the CIPFA Code of Practice and in this context is the management of the Council's cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council has adopted the Code and complies with its requirements.

2. The Report

- 2.1 The Council's treasury advisors Link Asset Services – Treasury Solutions summarised the key points associated with economic activity in Q3 2017/18 up to 31 December 2017:

- The economy maintained a mediocre pace;
- Employment fell, but there were some signs of a pick-up in wage growth;
- Headline inflation reached its highest since March 2012;
- The MPC hiked Bank Rate for the first time in a decade;
- The Chancellor provided a bigger-than-expected Budget giveaway;
- The European Commission gave the green light to progress to the second phase of Brexit negotiations

Interest Rate Forecasts

- 2.2 The interest rate forecasts (last update 30 September 2017) of Link are as follows:

<i>Date</i>	<i>Bank rate</i>	<i>5 year PWLB*</i>	<i>10 year PWLB*</i>	<i>25 year PWLB*</i>	<i>50 year PWLB*</i>
Current rates	%	%	%	%	%
March 2018	0.50	1.40	1.91	2.48	2.21
Sept 2018	0.50	1.40	2.00	2.70	2.40
March 2019	0.50	1.50	2.20	2.80	2.60
March 2019	0.75	1.60	2.30	2.90	2.70
Sept 2019	0.75	1.70	2.40	3.00	2.80

* Net of certainty rate 0.2% discount

- 2.3 As anticipated in September 17, the Bank of England Bank Base Rate increased on 2nd November from 0.25% to 0.5% in line with market speculation earlier in the year. The tone from the MPC still indicates that the Bank rate will need to rise, no further bank rate increases are expected until December 2018 at the earliest.
- 2.4 The overall balance of risks to economic recovery in the UK is currently to the downside, with huge variable over the coming few years including what the final form Brexit will take, when finally agreed with the EU and when.

Investments

- 2.5 The investment of cash balances of the Council are managed as part of the investment pool operated by North Yorkshire County Council (NYCC). In order to facilitate this pooling, the Council's Annual Investment Strategy and Lending List has been aligned to that of NYCC.
- 2.6 NYCC only invests in highly credit rated institutions using the information from Link Asset Services. The approved limits within the Annual Investment Strategy were not breached during the first six months of the year.
- 2.7 The Council's investment activity in the NYCC investment pool up to Q3 2017/18 was as follows:
- Balance invested at 31 December 2017: £56.4m
 - Average Daily Balance 2017/18 up to 31 December 2017: £45.2m
 - Average Interest Rate Achieved up to 31 December 2017: 0.47%
- 2.8 Based on the low bank rate, NYCC's current target for investment returns is 0.4%. Interest rates have remained low throughout 2017 to date and the average rate of 0.47% is above the target. In addition the Council's cash balances remain high which is supporting the interest earned budget.
- 2.9 The Council's budget and current forecast for interest income is as follows:

	Budget	Current Forecast
General Fund	£100k	£190k
Housing Revenue Account	£25k	£63k
Total	£125k	£253k

- 2.10 The Approved Lending List for the NYCC managed investment pool as at 31 December 2017 is attached as **Appendix B**.

Debt and Borrowing

2.11 The Council's outstanding external debt at 31 December 2017 is as follows:

- PWLB: £52.8m
- Money Market Loans: £6.5m
- Total debt: **£59.3m**
- Average interest rate: 4.19%

2.12 It is a statutory duty for the Council to determine and keep under review its 'Affordable Borrowing Limits'. The Council approved Borrowing Limits (including £1.0m for leases) are as follows:

- Operational Borrowing Limit: £76.0m
- Authorised Borrowing Limit: £81.0m

2.13 A list of the Council's approved Prudential Indicators are shown in **Appendix A**. Officers can confirm that the Prudential Indicators were not breached during Q3.

3. Legal/Financial Controls and other Policy matters

Legal Issues

3.1 There are no legal issues as a result of this report.

Financial Issues

3.2 As set out in the report.

Impact Assessment

3.3 There are no equality impacts as a result of this report.

4. Conclusion

4.1 Whilst the bank rate remains low, investment returns continue to be depressed although high cash balances are supporting the interest earned budget. Based on current performance and future interest rate projections, interest earned is forecast to exceed budget by £128k (£90k GF and £38k HRA) although this will be kept under review as the year progresses.

4.2 The Council operated within its approved borrowing limits over the last quarter and prudential indicators were not breached.

5. Background Documents

None

Contact Details

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Appendices:

Appendix A – Prudential Indicators as at 30 September 2017

Appendix B – NYCC approved lending list as at 30 September 2017

NYCC Approved Lending List as at 30 September 2017

Maximum sum invested at any time (the overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £20m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	75.0	364 days	-	-
Natwest Bank	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
Bank of Scotland	GBR	75.0	6 months	-	-
Lloyds	GBR				
HSBC	GBR	30.0	364 days		
Goldman Sachs International Bank	GBR	40.0	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	20.0	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	Temporarily suspended	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

Based on data from 11 October 2017